



# From Mercantilism to Adam Smith:

The Evolution  
of the  
Modern Capitalist System



# Mercantilism



# Characteristics of Mercantilism

1. **“Bullionism”** → the eco. health of a nation could be measured by the amount of precious metal [gold or silver] which it possessed.
  - ‘Hard’ money was the source of prosperity, prestige, and strength for a nation.
  - Bullionism dictated a **“favorable balance of trade.”**
    - Export more than you import [a trade surplus].
      - High tariffs on imported manufactured good.
      - Low tariffs on imported raw materials.
2. Each nation must try to achieve economic self-sufficiency.
  - Those founding new industries should be rewarded by the state.



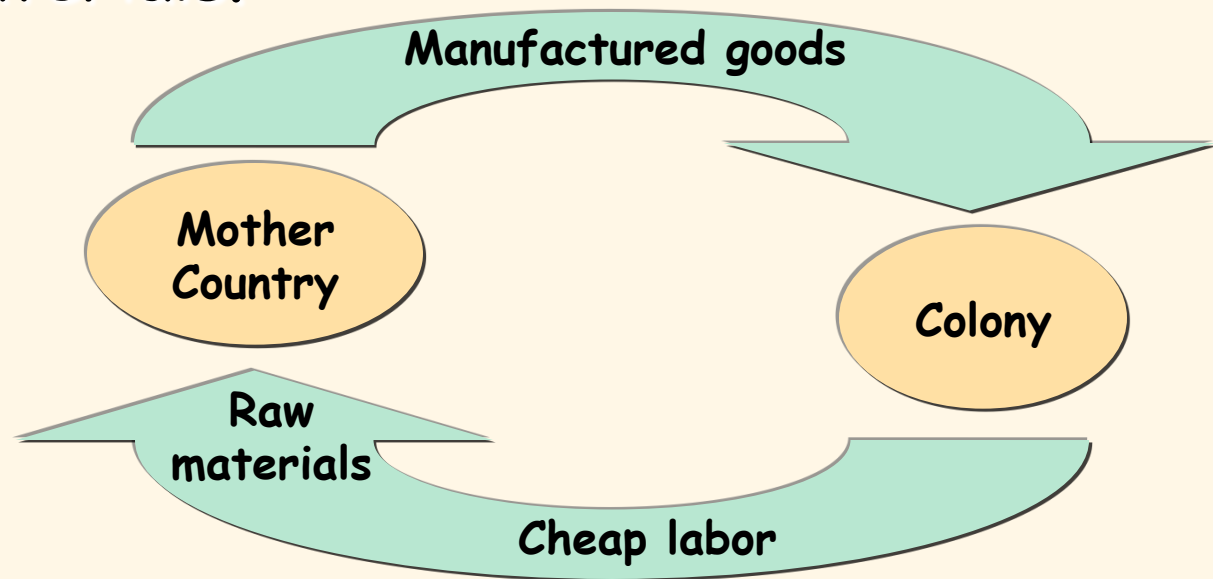
## Characteristics of Mercantilism

3. Thriving agriculture should be carefully encouraged.
  - Less of need to import foods.
  - Prosperous farmers could provide a base for taxation.
4. Sea power was necessary to control foreign markets.
  - Less need to use the ships of other nations to carry your trade goods.
  - Your own fleet adds to the power and prestige of the nation.
5. Impose internal taxes of all kinds.



# Characteristics of Mercantilism

6. Colonies would provide captive markets for manufactured goods & sources of raw materials.



7. Trade is a “**zero-sum**” game.
  - A nation can gain in international trade only at the expense of other nations.



## Characteristics of Mercantilism

8. A large population was needed to provide a domestic labor force to people the colonies.
9. Luxury items should be avoided
  - They took money out of the economy unnecessarily.
10. State action was needed to regulate and enforce all of these economic policies.
  - State-sponsored trade monopolies.

# Jean Baptiste Colbert

## [(1619-1683)]

£ Architect of French mercantilism or “Colbertism.”

£ He was a bullionist.

£ There are four professions of importance to the nation:

- Agriculture
- Trade
- Army
- Navy

£ Uniform weights & measures.

£ Opposed tolls on internal trade.





# Jean Baptiste Colbert [(1619-1683)]

- £ Supported mandatory labor on national roads.
- £ Favored a large population.
  - Father of 10 or more children would be exempt from taxes.
- £ Favored low wages and child labor.



Colbert & Louis XIV





# Who Benefited Most From Mercantilism?

£ Monarchs.

£ Merchant capitalists.

£ Joint-stock companies.

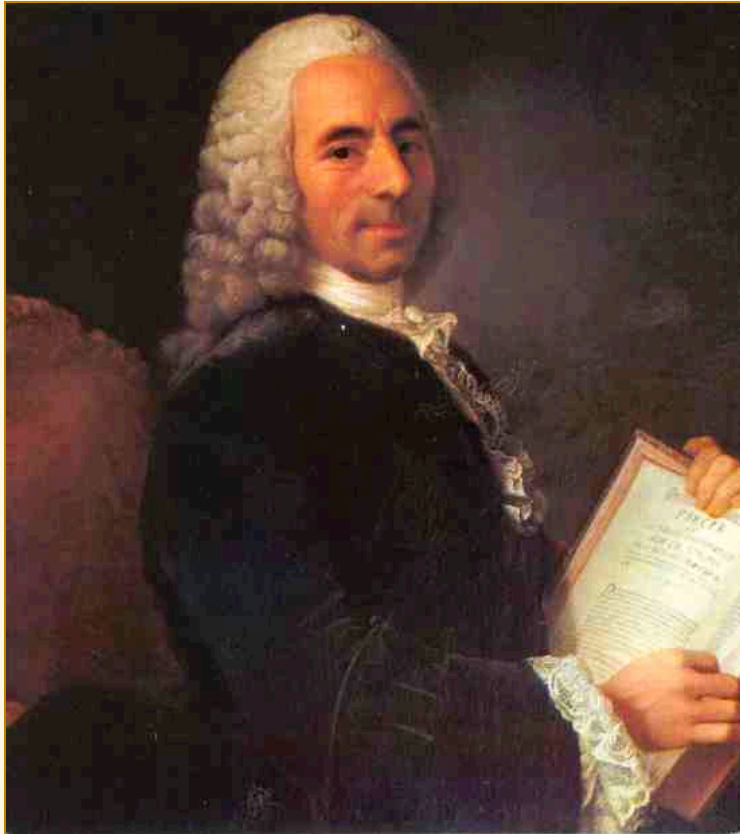
£ Government officials.



# The Physiocrats

(The “Government of Nature”)

# Francois Quesnay (1694-1774)



- £ A surgeon who turned to medicine because of failing eyesight.
- £ He began publishing economics treatises at the age of 62.
- £ No single document or book summarizes his economic system.
- £ He was concerned about the state of the French economy, especially of French agriculture.



# Quesnay's Economic Theories

## £ *Tableau Économique* [1759].

- A reaction against the extreme mercantilist policies of Colbert.

## £ Three economic classes:

1. "Proprietary class" → landowners.
2. "Productive class" → agricultural laborers.
3. "Sterile class" → artisans & merchants.

## £ Productive work was the source of national wealth.

**Tableau Économique**

*Objets à considérer, 1°. Trois sortes de dépenses; 2°. leur source; 3°. leurs avances; 4°. leur distribution; 5°. leurs effets; 6°. leur reproduction; 7°. leurs rapports entr'elles; 8°. leurs rapports avec la population; 9°. avec l'Agriculture; 10°. avec l'industrie; 11°. avec le commerce; 12°. avec la masse des richesses d'une Nation.*

DÉPENSES PRODUCTIVES relatives à l'Agriculture, &c.	DÉPENSES DU REVENU, l'impôt prélevé, se partageant aux Dépenses productives et aux Dépenses stériles.	DÉPENSES STÉRILES relatives à l'industrie, &c.
Avances annuelles pour produire un revenu de 600 <sup>li</sup> sont 600 <sup>li</sup>	Revenu annuel de 600 <sup>li</sup>	Avances annuelles pour les Ouvrages des Dépenses stériles, sont 300 <sup>li</sup>
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0...1...5 <sup>li</sup> se reproduisent net.....	0...1...5 <sup>li</sup>	Etc.



# Quesnay's Economic Theories

- £ Therefore, the wealth of the nation was derived from agriculture.
  - Agriculture was the productive sector of an economy.



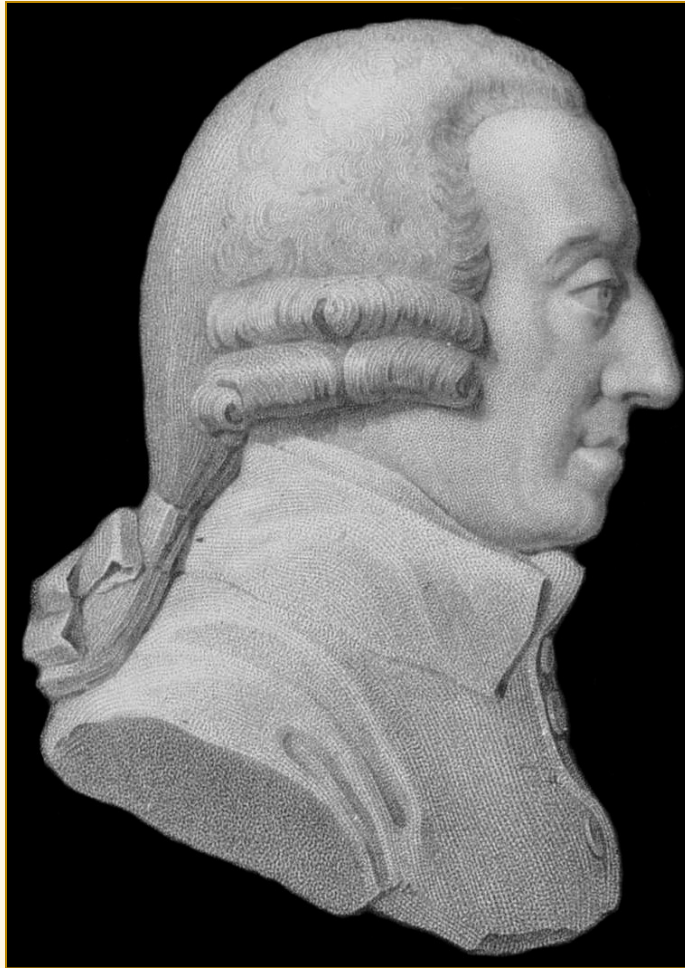
- £ Tax only the landowning class.



# Capitalism

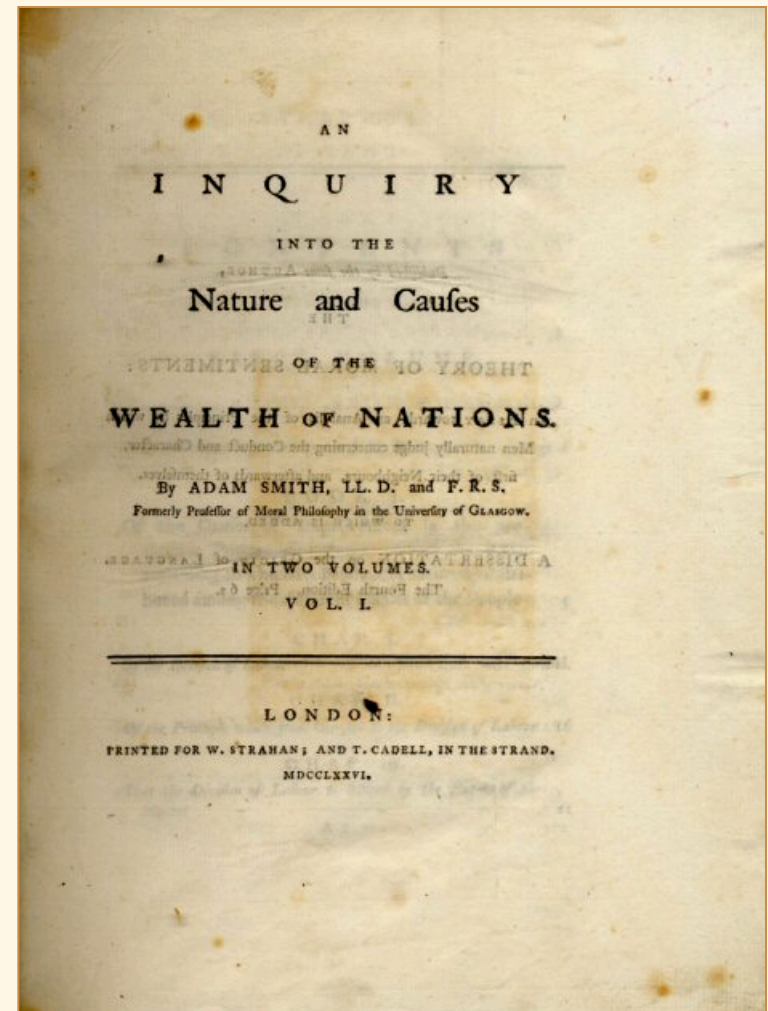
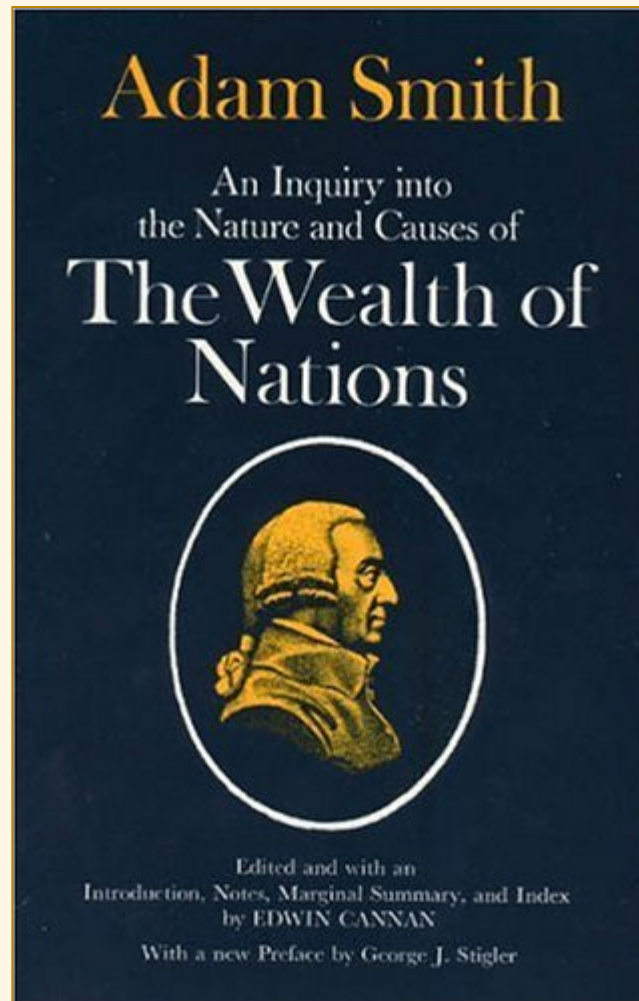


# Adam Smith (1723-1790)



- £ Appointed to the chair of logic in 1751 at the University of Glasgow, Scotland.
- £ In 1752 he transferred to the chair of philosophy.
- £ On his travels to France, he was influenced by the writings of the physiocrats.
- £ 1776 → *The Theory of Moral Sentiments and an Inquiry Into the Nature of Causes of the Wealth of Nations* was published.
  - A vehement attack of the mercantilist system.

# The Wealth of Nations (1776)







# Adam Smith's Attack on Mercantilism

- £ He was making a political argument, NOT an economic one.
  - Part of the argument was for new economic policy, but..
  - An essential part of the argument was for new social and political arrangements.
- £ He argued that the basic unit for social analysis should be the *nation*, not the *state*.
- £ He was against the belief that trade was a zero-sum game
  - It was a positive-sum game.
  - Both nations gained.



# Basic Capitalist Principles

1. Goods and services are produced for profitable exchange.
2. Human labor power is a commodity for sale → **LABOR IS THE SOURCE OF VALUE.**



# Basic Capitalist Principles

## 3. The “Invisible Hand” of the market

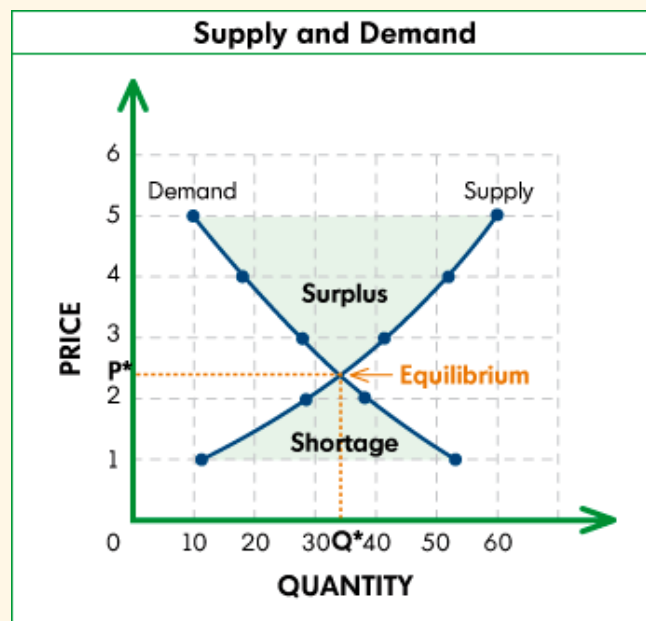
- Problem → How do we survive in a world where we must depend on many others, but where humans are by nature self-interested individuals??
- Solution → the free market, while appearing chaotic and unrestrained, is actually guided to produce the right amount and variety of goods by a so-called “invisible hand.”
- Therefore, the basic market mechanism is self-regulating!





# Basic Capitalist Principles

4. Individuals seeking success are driven by self-interest → **Profit Motive**
5. The **Law of Supply and Demand**
  - Individuals who are free to pursue their self-interest will produce goods and services that others want, at prices others will be willing to pay.







# Basic Capitalist Principles

## 6. *Law of Competition*

- The competitive market system compels producers to be increasingly efficient, and to respond to the desires of consumers.

## 7. A social division of labor will maximize the satisfaction of individual wants and needs, given scarce resources.

## 8. Government should interfere minimally with the free and efficient workings of the market

- *Laissez faire* ["Leave things alone."]



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